

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NOS. 89-510-C & 89-567-C - ORDER NO. 90-611✓

JUNE 14, 1990

IN RE:	Application of Contel of South Carolina,)	
	Inc. for Approval of Revised Depreciation)	
	Rates)	
)	ORDER APPROVING
	AND)	RATES AND CHARGES
)	
	Application of Contel of South Carolina,)	
	Inc. for a General Increase in its Rates)	
	and Charges for Telecommunications)	
	Service in South Carolina.)	

I.

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of separate filings by Contel of South Carolina, Inc. (Contel). On September 18, 1989, Contel filed an Application requesting approval of revised depreciation rates and proposed amortization schedules. The Application was filed pursuant to §58-9-350 of the S.C. Code of Laws, (1976), as amended. This Application was assigned Docket No. 89-510-C. Thereafter, on December 15, 1989, Contel filed an Application with the Commission seeking a general increase in its intrastate rates and charges for telecommunications service in South Carolina. This Application was filed pursuant to §58-9-510 of the S.C. Code of Laws (1976), as amended. Both matters were

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I.

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duly noticed to the public as prescribed by the Commission's Executive Director. The Company likewise was required to notify directly all customers affected by the proposed changes in the Company's intrastate rates and charges. Contel furnished affidavits demonstrating that the notice had been duly published in accordance with the instructions of the Executive Director and certified that a copy of the notice had been mailed to each customer affected by the rates and charges proposed in the Company's Application.

Separate Petitions to Intervene were filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate) and AT&T Communications of the Southern States, Inc. (AT&T).

According to the Company's Application, the proposed rates and charges would have produced additional revenues of \$1,183,485 had they been in effect for the twelve month period ending September 30, 1989. The Commission Staff calculated that the requested rates and charges would produce \$1,208,102 in additional revenues. The Company's presently authorized rates and charges were approved by Order No. 85-705, dated September 10, 1985, in Docket Nos. 84-509-C and 85-49-C.

The Commission Staff, pursuant to R.103-853 of the Commission's Rules and Regulations, filed with the Commission and served upon the Company a Data Request whereby the Staff sought the production of certain additional information relative to the Company's Application and operations. The Company subsequently

submitted to the Commission and Staff its response to the Data Request.

On January 26, 1990, the Commission directed the Company, on or before February 20, 1990, to file with the Commission and to serve on all parties of record, copies of the testimony and exhibits of the Company's intended witnesses. The Company duly filed with the Commission its Case in Chief, consisting of the prepared direct testimony and exhibits of its witnesses: Wheeler B. Smith, Jr., Vice President and State Manager; Phillip L. Cleverly, Financial Analyst-Contel Service Corporation; Charles E. Olson, economist and President of H. Zinder & Associates; Christopher K. Fallis, Senior Financial Analyst-Contel Service Corporation; O. Douglas Fulp, Manager-Revenue Requirements/Pricing-Contel Service Corporation; and Gary E. McAninch, Manager-Capital Management-Contel Service Corporation.

The Commission directed the Staff and all other parties of record to file with the Commission on or before April 4, 1990, and serve on all parties of record herein, the testimony and exhibits of all intended witnesses in this proceeding. After receiving a one day extension, the following testimony was prefiled on or before April 5, 1990: For AT&T, Mike Guedel, Staff Manager-State Government Affairs; for the Commission Staff, Steve W. Gunter, Public Utilities Accountant; James M. McDaniel, Chief, Telecommunications Department; R. Glenn Rhyne, Jr., Director, Research Department; and David L. Lacoste, Public Utilities Engineer.

Thereafter, pursuant to notice duly given and in accordance with applicable provisions of law and with the Commission's Rules of Practice and Procedure, a public hearing relative to the matters asserted in the Company's Application was commenced on April 18, 1990, Honorable Caroline H. Maass, presiding. D. Reece Williams, III, Esquire, and Frank R. Ellerbe, III, Esquire, represented the Company; Nancy J. Vaughn, Esquire, appeared on behalf of the Consumer Advocate; Francis P. Mood, Esquire, appeared on behalf of AT&T; and Marsha A. Ward, General Counsel, represented the Commission Staff.

II.

FINDINGS OF FACT

Based upon the Application, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceedings, the Commission now makes the following findings of fact:

1. That Contel of South Carolina, Inc. is a telephone utility providing telephone service in service areas within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. §58-9-10, et seq. (1976, as amended).
2. That the appropriate test period for the purposes of this proceeding is the twelve-month period ending September 30, 1989.
3. That by its Application, the Company is seeking an increase in its rates and charges for intrastate telephone service of \$1,183,485.

4. That the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments are \$6,197,355 which reflects a \$196,581 increase in per book revenues.

5. That the appropriate operating revenues under the approved rates are \$6,897,040, which reflects a net authorized increase in operating revenues of \$699,685.

6. That the appropriate operating expenses for the Company's intrastate telephone operations for the test year under its present rates and after accounting and pro forma adjustments are \$5,433,204, which reflects an increase in per book expenses of \$257,578.

7. That the appropriate operating expenses under the approved rates are \$5,695,959.

8. That the Company's reasonable and appropriate federal and state income tax expense should be based on the use of a 34% federal tax rate and a 5.0% state tax rate, respectively.

9. That the Company's appropriate level of net operating income for return after accounting and pro forma adjustments is \$782,338.

10. That the appropriate net income for return under the rates approved and after all accounting and pro forma adjustments is \$1,219,268.

11. That a year-end, original cost, South Carolina intrastate rate base of \$10,930,672, consisting of the components set forth in Table B of this Order, should be adopted.

12. The capital structure utilized by the Commission in this proceeding for its determination of the Company's proper level of return on common equity is the Contel Consolidated Domestic Telephone Companies' capital structure as of December 31, 1989.

13. The Staff's embedded cost rates for long-term debt of 9.17% and the Staff's embedded cost rates for preferred stock of 8.69% as of December 31, 1989, should be used in the determination of a fair, overall rate of return.

14. The reasonable rate of return on common equity that the Company should be allowed to earn is 12.75% which is adopted by the Commission for this proceeding. Combined with the debt and preferred cost rates and the capital structure set forth in the Table below, the Commission finds the reasonable, overall rate of return is 11.15%.

ITEM	<u>PERCENT</u>	<u>WEIGHTED RATE</u>	<u>COST</u>
LONG TERM DEBT	44.41%	9.17%	4.07%
PREFERRED STOCK	.18%	8.69%	.02%
COMMON EQUITY	<u>55.41%</u>	<u>12.75%</u>	<u>7.06%</u>
<u>TOTAL</u>	<u>100.00%</u>		<u>11.15%</u>

15. That the rate designs and rate schedules approved by the Commission and the modifications thereto as described herein are appropriate and should be adopted.

16. That the exchange rates in Appendix A, attached herein, are approved and effective for service rendered on and after the date of this Order.

17. That the depreciation rates approved herein and attached

as Appendix B and incorporated by reference herein are effective January 1, 1990.

III.

EVIDENCE AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's verified Application and in prior Commission Orders in the docket files of which the Commission takes notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are essentially uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 2 AND 3.

The evidence for these findings concerning the test period and the amount of the revenue increase requested by the Company is contained in the verified Application of the Company and the testimony and exhibits of Company witness Cleverly.

On December 15, 1989, the Company filed an Application requesting approval of rate schedules designed to produce an increase in gross revenues of \$1,183,485. The Company's filing was based on a test period consisting of the 12 months ending September 30, 1989. The Commission Staff and the parties of record herein likewise offered their evidence generally within the context of that same test period.

A fundamental principle of the ratemaking process is the establishing of a test year period. The reliance upon the test

year concept, however, is not designed to preclude the recognition and use of other historical data which may precede or postdate the selected twelve month period.

Integral to the use of a test year, representing normal operating conditions to be anticipated in the future, is the necessity to make normalizing adjustments to the historic test year figures. Only those adjustments which have reasonable and definite characteristics, and which tend to influence reflected operating experiences are made to give proper consideration to revenues, expenses and investments. Parker v. South Carolina Public Service Commission, et.al., 280 S.C. 310, 313 S.E. 2d 290 (1984).

Adjustments may be allowed for items occurring in the historic test year, but which will not recur in the future; or to give effect to items of an extraordinary nature by either normalizing or annualizing such items to reflect more accurately their annual impact; or to give effect to any other item which should have been included or excluded during the historic test year. The Commission finds the twelve months ending September 30, 1989, to be the reasonable period for which to make our ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 4 AND 5.

The evidence for the findings concerning the adjusted level of operating revenues is found in the testimony and exhibits of Company witnesses Cleverly and Fulp and Commission Staff witnesses Gunter and McDaniel. (See, Hearing Exhibit Nos. 3, 5, and 9)

The Company and the Staff differed on many adjustments to

operating revenue based on the Company's Application and the Commission Staff Report. The Consumer Advocate did not propose any adjustments directly affecting operating revenues. The Company and the Staff concurred on several adjustments to revenues and for the purposes of our discussion, they need not be addressed. The Commission will, however, discuss those adjustments to revenues where the Company and the Staff differed.

INTRALATA TOLL POOL ADJUSTMENT

The Staff and the Company proposed to adjust intraLATA toll pool revenues for the affect of adjusting reimbursable toll pool expenses. The intraLATA toll pool was recalculated using test period investment balances, pro forma adjustments to expenses and rate base, 1988 separations factors, and the 1988 intrastate intraLATA achieved rate of return of 24.39%. According to the Company, this adjustment increases intrastate revenues by \$279,430. The Staff's adjustment of \$252,148 reflects the difference in Staff's recommendation for depreciation expenses which will be discussed infra., p. 15. Based upon the concurrence of the Staff and the Company on this adjustment, except for Staff's recommendation for the appropriate depreciation expense, the Commission herein approves the Staff's adjustment to revenues and will discuss the depreciation portion of that adjustment in a separate portion of this Order, infra.

NECA FORMULA

The Commission Staff proposed to annualize the proceeds from the High Cost Fund administered by NECA using a revised formula.

NECA has supplied a new formula for the High Cost Fund proceeds. The Commission Staff annualized the reimbursement from NECA as of January 1, 1990, and subtracted what was recorded during the test year. The Commission is of the opinion that since this revised formula is now in effect and will be in effect in the future, it is appropriate to annualize the proceeds from the NECA pool using the revised formula. This is a known and measurable change, even though it is outside of the test year and is appropriate for ratemaking purposes.

INTRALATA TOLL RATE REDUCTION

The Company proposed to adjust its intraLATA toll pool revenues to reflect Southern Bell's MTS rate decrease. According to the testimony of witness Cleverly, the impact of Southern Bell's expected intraLATA toll rate reduction will result in a reduction to the Company's revenue settlements from the intraLATA toll pool in the amount of \$120,243. But as testified to by Company witness Fulp, while the Commission may have approved the maximum rate tariff of Southern Bell, Southern Bell has not filed a reduction to its intraLATA toll rates. The 10% reduction of Southern Bell's MTS rate is purely speculation. Therefore, the Commission finds that the Company's proposal to adjust the intraLATA toll pool revenues to reflect a decrease by Southern Bell to its intraLATA toll rates, is not a known and measurable change and is not appropriate for ratemaking purposes. The Company's proposal in this regard is denied.

INTRASTATE INTERLATA ACCESS TARIFFS

The Company proposed an adjustment of \$140,598 to reflect the impact of its proposal to mirror its interstate access charges through its intrastate interLATA access tariff. The Commission Staff concurred in the dollar impact of this adjustment. AT&T, as testified to by witness Guedel supported the Company's proposal to reduce its intrastate access charges. Based on the Commission's discussion, infra., p. 46, the Commission denies this adjustment for ratemaking purposes.

SEPARATIONS FACTORS

Both the Staff and the Company proposed adjustments to reflect the intrastate intraLATA revenue impact of using adjusted separations factors in the intraLATA toll pool. The Company proposed an adjustment of \$107,363, while Staff proposed an adjustment of \$105,810. Separation factors were adjusted to include the phasedown of the Subscriber Plant Factor (SPF) and the phaseup of the Dial Equipment Minutes factor (DEM) mandated by FCC Docket No. 80-286. SPF and DEM were adjusted to rate year levels by the Company. The Commission Staff adopted the Company's adjustment relating to its separation factors. The Commission Staff's adjustment reflects a difference in depreciation which will be discussed infra., p. 15. Based on the Commission's treatment of depreciation and the adoption of the Company's treatment of SPF and DEM, the Commission finds Staff's adjustments to be appropriate for ratemaking purposes.

Therefore, for the purposes of this proceeding, the

appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments, are \$6,197,355 which reflects a \$196,586 increase in revenues.

The Commission concludes that the Staff's adjustments relating to the Company's operating revenues are proper and that the appropriate adjusted amount is \$6,197,355. Based on the Commission's finding of fact No. 14 granting the Company a 12.75% rate of return on common equity, the Company's operating revenues after the approved increase are \$6,897,040.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 6, 7, 8 AND 17.

Certain adjustments affecting expenses were included in the Exhibits and Testimony offered by witnesses for the Company and the Commission Staff. This Order will address and detail only those accounting and pro forma adjustments affecting expenses which differed between the Company and the Commission Staff.

SEPARATIONS FACTORS

The Staff and the Company proposed to adjust several categories of expense, including income tax expense for the effects of adjusting separation factors. Both Staff and the Company proposed slightly different adjustments to plant specific expenses, plant non-specific expenses, corporate operations, depreciation and amortization and operating taxes. The Company proposed an adjustment of \$8,162 to operating taxes, while the Commission Staff proposed an adjustment of \$7,042. Differences in making pro forma adjustments account for the slight variations between Staff's and

the Company's adjustments. Because the Staff has followed the Commission's established policies and procedures, the Commission will adopt Staff's adjustments herein.

ANNUALIZATION OF WAGE INCREASES

The Staff and the Company proposed to annualize wage increases. The Staff's adjustment is based on known and measurable changes while the Company's adjustments are based on projected changes. The Company had originally filed its adjustment based on a projected increase before its union contract had been finalized. At the time of Staff's audit, the contract had been finalized and the Commission Staff's adjustment is based on known and measurable wage increases. The Commission Staff also proposed to capitalize a portion of this wage increase attributable to the employees' time devoted to permanent improvements. The Company had capitalized a portion of employee wages during the test year and such was reflected on a "per books" basis. The Commission has determined that since the Commission Staff's adjustment is based on known and measurable changes, Staff's adjustments should be approved. Also, the Commission has determined that it is appropriate for ratemaking purposes to capitalize that portion of an employees wages which may be attributable to time spent related to making permanent improvements to the Company's rate base.

ANNUALIZATION OF EMPLOYEE BENEFITS

Both the Staff and the Company propose to annualize employee benefits. As explained above, at the time of the Company's filing, the union contract had not been finalized. The Commission Staff's

adjustments reflect known and measurable changes in the employee benefits. Additionally, Staff's adjustments differ due to the capitalization of a portion of these benefits in recognition of the employees' time devoted to permanent improvements. Based on the previous findings, the Commission has determined that Staff's adjustments to the employee benefits are appropriate and are approved for ratemaking purposes herein.

NON-ALLOWABLE ITEMS

The Commission Staff proposed to reduce expenses for several non-allowable items. Specifically, the Staff proposed to reduce expenses for certain advertising expenses, non-regulated activities, newsletters, employee incentive awards, Christmas cards, lobbying expenses in the amount of \$1,250 and a portion of the U.S. Telephone Association dues. The Commission has traditionally considered these types of expenses not to benefit the ratepayers and therefore are not appropriate for ratemaking purposes. These types of expenses are better supported by the shareholders of the Company and are excluded for ratemaking purposes.

OFFICERS' SALARY INCREASES

The Commission Staff proposed to eliminate Officers' Salary increases which took place during the test year. These salary increases were given to the officers of Contel, Inc. The South Carolina intrastate portion of these expenses would impact corporate operations by \$441 and operating taxes by \$164. Again, these types of officer increases do not tend to benefit the

ratepayers in South Carolina and should, therefore, be eliminated for ratemaking purposes.

LEGAL EXPENSES

The Commission Staff proposed the amortize legal expenses incurred during the test year pertaining to intrastate rate proceedings over a three year period. Specifically, the legal expenses were incurred from the Company's participation in the Southern Bell intraLATA maximum rate proceeding and the intraLATA carrier common line charge proceeding (See Docket Nos. 89-181-C and 88-472-C, respectively). Staff's adjustments would decrease corporate operation expenses by \$5,778 and increase operating taxes by \$2,155. The Commission finds that the Company's participation in these two dockets is proper and its participation is certainly related to the provision of intrastate telecommunications services and would benefit the ratepayers of Contel. However, in keeping with the Commission's prior regulatory practices and policies, these legal expenses should be amortized over a three year period. Therefore, the Commission Staff's proposal to amortize these expenses over three years is appropriate and hereby adopted.

DEPRECIATION EXPENSE

Both the Company and the Staff proposed to annualize depreciation expense on the end of period plant balances. The Company's adjustment adjusts intrastate per book depreciation expense to reflect test period plant levels and revised depreciation rates. The revised depreciation rates, requested by the Company under Docket No. 90-510-C and supported by the

testimony of witness McAninch, were applied to the September 30, 1989, plant balances to determine the adjusted level of depreciation expense. The Company's depreciation expense adjustment increases intrastate expenses by \$441,881. The Commission Staff's adjustment, supported by the testimony and exhibits of Staff witness Lacoste, increases intrastate expenses by \$322,538.

The Staff adopted a majority of the Company's methodology for calculating depreciation rates and reserve imbalances. Additionally, the Commission Staff's adjustment reflects the Staff's agreement with the Company's proposed parameters and resulting depreciation rates for most of the plant categories. Staff also compared the proposed depreciation rates with a South Carolina composite rate. The Staff proposed different service lives, salvage values and reserves which result in different depreciation proposals for motor vehicles, buildings, general purpose computers, digital switching, pay stations, poles and conduit systems. Staff witness Lacoste based his recommendations on the use of a comparison of Southern Bell's January 1, 1989, depreciation study, the GTE South depreciation study proposed on December, 1988, the Southern Bell approved depreciation rates as of the time of this hearing and the GTE South, three-way agreement depreciation rates as of the time of this proceeding. Witness Lacoste compared the reserve percentages, the future net salvage value, the depreciation curve shape, the projection life, the average service life, the remaining life, and then the various

depreciation rates approved, proposed, and recommended. Staff witness Lacoste also examined the depreciation study and analysis presented by the Company to justify his recommendations.

The Commission finds that, based on the testimony and exhibits of the Commission Staff, Staff's proposals represent more appropriate depreciation rates for the Company's plant accounts and should be approved herein, since the parameters used for calculation of Staff's proposed depreciation rates are within the range of parameters used for determination of the depreciation rates for other telecommunications utilities under the Commission's purview. The Commission finds that the resultant depreciation rates adopted herein and reflected in Appendix B are reasonable and are effective on and after January 1, 1990.

CHANGE IN STATE INCOME TAX RATE

Both the Staff and the Company propose to adjust for the change in the state income tax rate to 5%. The Company books state income taxes at a blended rate of 5.182% to reflect the tax rate change to the test year and then "trued up" the effect of the tax change. The Commission Staff used the 5% rate on all adjustments to the Company's per book amounts and then "trued up" the per books. The Commission finds that the Staff's use of the 5% rate on all adjustments is the more appropriate method to reflect the change in the income tax rate. The use of the blended rate, while not inappropriate, is not as accurate accounting method as the Commission Staff's. Therefore, the Commission adopts the Commission Staff's adjustment to operating taxes of (\$1,179).

INTEREST SYNCHRONIZATION

Both the Company and the Commission Staff used the accepted formula for the interest synchronization adjustment. The difference between the Staff's adjustment of reducing operating taxes by \$58,087 compared to the reduction proposed by the Company of \$52,192 results in the Staff's and the Company's differences in rate base items, e.g. capitalized wage adjustment, depreciation adjustment, cash working capital calculation and inclusion of interest on customer deposits. For ratemaking purposes, the Commission will adopt the adjustment of the Commission's Staff.

CUSTOMER GROWTH

Both the Staff and the Company propose to record the effects of customer growth. The Company used a 13 month average to record a customer growth adjustment of (\$8,967). The Commission Staff used the formula as previously been approved by this Commission to calculate the customer growth of (\$1,452) which the Commission finds as being appropriate for ratemaking purposes.

The Commission herein approves the tax rates proposed by the Commission Staff and the Company of 34% and 5.0% for Federal and State taxes, respectively.

The Commission will hereby adjust general taxes, and state and federal income taxes, to reflect all adjustments approved herein. All accounting and pro forma adjustments proposed by the Staff and not objected to by any other party are hereby approved. All other adjustments proposed by any party inconsistent therewith have been reviewed by the Commission and found to be unreasonable or

inappropriate for ratemaking purposes and are hereby denied.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9 AND 10.

Based on the Commission's determinations concerning the Accounting and Pro Forma adjustments to the Company's revenues and expenses, net income for return is found by the Commission as illustrated in the following Table:

TABLE A

NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$6,197,355
Operating Expenses	5,433,204
Net Operating Income	\$ 764,151
Interest During Construction	-0-
Customer Growth	18,187
Net Income for Return	<u>\$ 782,338</u>

AFTER RATE INCREASE

Operating Revenues	\$6,897,040
Operating Expenses	5,695,959
Net Operating Income	\$1,201,081
Interest During Construction	-0-
Customer Growth	18,187
Net Income for Return	<u>\$1,219,268</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The evidence supporting these findings concerning proper methodology and level of cash working capital and proper items to be included in the Company's rate base can be found in the exhibits and testimony of Company witness Cleverly and Commission Staff witness Gunter.

Pursuant to S.C. Code Ann., §58-9-570 (1976), in ratemaking proceedings involving a telephone utility the Commission must "give

due consideration to the telephone utility's property devoted to the public service...." Such consideration is traditionally made in the context of the determination of the utility's rate base.

For ratemaking purposes, the rate base is the total net value of the telephone utility's tangible and intangible capital or property value on which the telephone utility is entitled to earn a fair and reasonable rate of return. The rate base, as allocated to the Company's operations, is composed of the value of the Company's property used and useful in providing telephone service to the public, plus construction work in progress, materials and supplies, and an allowance for cash working capital and property held for future use; less accumulated depreciation, accumulated deferred income tax (liberalized depreciation) and customer deposits. The Accounting Department of the Administration Division of the Commission Staff, prior to the date of the hearing, conducted an audit and examination of the Company's books and records, including rate base items, with plant additions and retirements. On the basis of this audit, the exhibits and the testimony contained in the entire record of the hearing, the Commission can determine and find proper balances for the components of the Company's rate base and other items.

When the rate base has been established, the Company's total operating income for return is applied to the rate base to determine what adjustments, if any, to the present rate structure are necessary to generate earnings sufficient to produce a fair rate of return or those adequate to meet the needs of the Company.

The rate base should reflect the actual investment made by investors in the Company's property and the net value upon which stockholders will receive a return on their investment. This Commission is among the majority of States which provide for the determination of rates based on a "year end" basis, which appears most reasonable to reflect the prospective operation of any ratemaking action, and has traditionally done so. The use of a "year end" rate base likewise serves to enhance the timeliness of the effect of such rate action and preserves reliance on historic and verifiable figures without resort to anticipated or projected figures. Consequently, the Commission finds it most reasonable to retain its consistent regulatory practice herein and evaluate the issues herein founded on a rate base as of September 30, 1989.

The Commission's determinations relative to the Company's rate base for its intrastate operations appear in the paragraphs below.

TELEPHONE PLANT IN SERVICE

The Commission has traditionally used the regulatory accounting methodology recognized as "original cost less depreciation" in the determination of the value of a telephone utility's plant in service. The record of the instant proceeding presents no justification for a departure from this methodology which was utilized by the Company and by the Commission Staff in calculating the Company's jurisdictional gross plant in service per books of \$17,993,903. The Commission Staff proposed adjustments to Telephone Plant in Service for the effects of the changes in the telecommunications industry and for including South Carolina's

portion of Common Plant located in other states. The net effect of these adjustments is to decrease Telephone Plant in Service by \$107,863. The Commission finds \$17,886,040 to be the appropriate figure for the Telephone Plant in Service to be used for ratemaking purposes herein.

ACCUMULATED DEPRECIATION

S.C. Code Ann., §58-9-350 (1976) provides, in pertinent part, that

[e]very telephone utility shall have the right and may be so required, to charge annually as an operating expense a reasonable sum for depreciation....

In determining the proper rate base for telephone utilities, the Commission has consistently applied a methodology which reduces the figure for the gross plant used and useful in providing public service by a reserve for depreciation and amortization. This reserve for depreciation and amortization for its South Carolina operations reflected a "per books" figure of \$5,266,457.

With the adjustments previously approved herein, the Commission is of the opinion, and, so finds, that the Company's per books reserve for depreciation and amortization for South Carolina operations of \$5,266,457 should be adjusted to reflect an additional \$281,187. Consequently, the reserve for depreciation and amortization to be used for ratemaking purposes in this proceeding is \$5,547,644.

CONSTRUCTION WORK IN PROGRESS

This Commission has traditionally considered the reasonable and necessary costs of construction of utility plant not yet in service to be a proper rate base item. Such costs are described as "construction work in progress" (hereinafter "CWIP"). The Commission has uniformly allowed CWIP to be included in a telephone utility's rate base with an offset adjustment to operating income for return by that portion of the interest on funds used during construction attributable to the CWIP at the end of the test period.

In the instant proceeding, the Company and the Commission Staff proposed to include \$347,401 as CWIP. Accordingly, the Commission will adopt that figure for ratemaking purposes herein.

MATERIALS AND SUPPLIES

The Commission has generally considered "materials and supplies" inventory to be a proper item to be included in a telephone utility's rate base. The items normally contained in the materials and supplies component of the rate base include poles, cable, wire, repair parts and other equipment necessary for the provision of dependable telephone service. The Commission finds and concludes based upon the Company's filing and the Staff's audit that the appropriate figure for materials and supplies to be included in the Company's rate base for its operations is \$58,305.

CASH WORKING CAPITAL

The Commission has normally considered an allowance for cash working capital to be an appropriate item for inclusion in the rate base of a telephone utility. By permitting a cash working capital allowance, the Commission acknowledges the requirement for capital expenditures related to the routine operations of the utility. The Company's use of "as adjusted" figures in calculating its cash working capital allowance is not consistent with the Commission's accepted practice of using "per book" numbers in the calculation. The Commission hereby includes a 20 day cash working capital allowance of \$198,915 based upon Staff's calculations.

ACCUMULATED DEFERRED INCOME TAXES

The accumulated reserves for Deferred Income Taxes resulting from liberalized depreciation and other items are considered by this Commission as an element on which investors are not entitled to earn a return and therefore should be excluded from rate base. The Commission finds that the amount to be deducted from rate base is \$1,943,115 as proposed by the Commission Staff.

CUSTOMER DEPOSITS

The amount representing customer deposits is considered an element upon which the Company's investors are not entitled to earn a return and is deducted from the Company's rate base. The Commission Staff proposed that the rate base be reduced by \$69,230 representing customer deposits. The Commission has treated the interest on customer deposits as a reduction to operating income in deriving the Company's overall rate of return.

The Company's rate base, as herein adjusted and determined by the Commission to be appropriate for the purposes of this proceeding, is set forth as follows:

TABLE B

ORIGINAL COST RATE BASE

SEPTEMBER 30, 1989

Telephone Plant in Service	\$ 17,886,040
Reserve for Depreciation and Amortization	(5,547,644)
Net Plant	<u>\$ 12,338,396</u>
Construction Work in Progress	347,401
Materials and Supplies	58,305
Cash Working Capital Allowance	198,915
Accumulated Deferred Income Taxes	(1,943,115)
Customer Deposits	<u>(69,230)</u>

TOTAL RATE BASE \$ 10,930,672

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 12 & 13

The evidence for these findings concerning the appropriate capital structure and embedded cost rate is found primarily in the testimony and exhibits presented by Company witness Olson and Commission Staff witnesses Rhyne and Gunter.

The Company presented the capital structure of the group of Bell Regional Holding Companies based upon the theory that the risks of the Bell companies, which continue to provide basic telephone service, more closely reflect the risks of Contel of South Carolina.

The Commission Staff used the capital structure of the consolidated telephone operations of Contel rather than the capital structure of the subsidiary of Contel of South Carolina or the

capital structure of the consolidated Contel Corporation. This capital structure used by Staff had been previously approved by the Commission in Docket Nos. 84-509-C and 85-49-C by Order No. 85-705, issued September 10, 1985. The use of the consolidated telephone companies' capital structure, according to witness Rhyne, removes the impact of the significant amount of the non-regulated investment of Contel Corporation. The more leveraged capital structure of the consolidated Contel Corporation would result in greater financial risk than the capital structure of the consolidated telephone companies. The Commission Staff used the most recent figures available -- December 31, 1989. The Commission finds, based on the testimony of Dr. Rhyne, that the consolidated telephone companies provide a useful proxy and a proper fit for the appropriate capital structure for this proceeding. The update to the most current December 31, 1989, figures also provide a more accurate reflection of the appropriate capital structure for the Commission's ratemaking purposes. The Staff's capital structure consists of 44.41% long-term debt, 0.18% preferred stock, and 55.41% common equity. The embedded cost rates for debt and preferred stock are 9.17% and 8.69%, respectively.

EVIDENCE AND CONCLUSION FOR FINDING OF FACT NO. 14.

One of the principal issues in any ratemaking determination involves the proper earnings to be allowed on the common equity investment of the regulated utility. In this proceeding, the Commission was offered the expert testimony of several witnesses relating to the fair and reasonable rate of return on common equity

for the Company. These financial experts presented detailed explanations of a number of methodological approaches to the determination of the cost of common equity capital for the Company.

This Commission has frequently stated that it adheres to no particular theory or methodology for the determination of a fair rate of return on common equity. Rather, the Commission has perceived its function as that of engaging in a careful and reasoned analysis of the abstract theories for application in a practical context. The record of the instant proceeding illustrates the use of several fundamental methods for the determination of the cost of common equity capital by the expert witnesses for the Company and for the Commission Staff.

The Company presented Charles E. Olson to provide evidence on the rate of return. R. Glenn Rhyne appeared on behalf of the Commission Staff.

The Company's witness Olson testified to the reasonableness of the Company's requested return on equity of 13.63% considering his utilization of several principals and methodologies, including the Discounted Cash Flow (DCF) Model and an interest premium analysis. The Company's requested 13.63% return on equity includes an 8% issuance cost increment. Dr. Olson's recommended range is between 13.25% and 14.0%. Dr. Olson's testimony also stated that if no issuance costs are included, his range is approximately 12.25% to 12.75%.

Staff witness Rhyne recommended a return of 12.25% to 13.25%. This was determined using a DCF Model and a CAPM. Dr. Rhyne did

not recommend an adjustment for issuance costs.

The testimony and exhibits of the financial witnesses for the Company and the Commission Staff demonstrated an approach to their respective investigations within the parameters of the language of the United States Supreme Court in its decision in Federal Power Commission vs. Hope Natural Gas Co., 320 U.S. 591 (1944), at 603:

[T]he return to the equity owner should be commensurate with the return on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

While the independent studies of each witness, either implicitly or explicitly, commenced with those standards, the respective methods employed produced quite different results, thereby presenting the Commission with a range between 12.0%, the lowest estimate produced in Dr. Rhyne's studies, and 14.0%, the high of witness Olson's range. In the final analysis, the Commission must determine the credibility and probative value of the testimony of the expert financial witnesses presented and the Commission must use its judgment in evaluating this evidence in regard to the cost of common equity, a matter which is within the expertise of the Commission.

The Commission must further appraise the opinions of the expert financial witnesses as to the expectations of investors or the opportunity costs of equity capital in conjunction with the tangible facts of the entire record of the proceeding, including the observable financial condition of the Company.

Furthermore, the Commission cannot determine the fair and reasonable return on common equity for the Company in isolation. Rather, the Commission must carefully consider a variety of relevant factors, including indentifiable trends in the market relating to the costs of labor, materials and capital; comparisons of past earnings with present earnings and prospective earnings; the prices for which the Company's service must be rendered; the returns of other enterprises and the reasonable opportunities for investment therein; the financial policy and capital structure of the Company and its ability to attract capital; the demonstrable competency and efficiency of the Company's management; the efforts of the Company to reduce costs consistent with the Commission's previous orders; and the inherent protection against competition afforded the Company through the operation of the regulatory process. The Commission must strike the balance among these complex and interrelated factors in the context of the record herein.

The Commission recognizes the legal principle and the practical necessity that the Company be allowed the opportunity to earn a fair rate of return to enable it to continue to meet its service obligations and to maintain its financial strength to provide for the attraction of capital to finance its construction program. The present and perceivable perspective financial condition of the Company and the investor appraisal of that condition demonstrates to the Commission that the Company's cost of equity capital for its South Carolina intrastate telephone utility

operations should be evaluated as somewhat lower than that postulated by the Company's witnesses herein.

In its determination of a fair and reasonable rate of return, the Commission maintains the ultimate responsibility of setting the rates to be charged for the utility services provided by the Company. The exercise of that responsibility involves the balancing of the interests of the consumer and the investor.

The Commission must gravely balance the interests of the consumer in regard to the price of utility service with the interests of the same consumer in regard to the reliability and adequacy of the intrastate telephone service. The Commission has maintained these interests paramount throughout this proceeding. The Commission's determinations of the Company's revenue requirements and of the proper allocation of these revenues within the approved rate structure embodied in this Order reflect fairly and equitably the interests of those consumers.

Upon a thorough review of the conclusions reached by each financial and economic witness in this proceeding, as well as upon our consideration of the full evidence in the record before us, the Commission has determined that the additional revenues of \$1,208,102 produced by the proposed rate schedules for the Company's intrastate operations, which would generate a rate of return on equity of 16.50%, based on adjusted test year figures, are excessive and unreasonable. That return on common equity and the associated revenues cannot be supported by the evidence in this proceeding.

It, therefore, becomes the Commission's responsibility to set a fair and reasonable rate of return on common equity from which can be derived the lawful rates for the Company for its South Carolina intrastate telephone operations. This responsibility must be discharged in accordance with statutory and judicial standards and based upon the numerous factors identified herein, and applied in accord with the informed judgment of the Commission.

Based on the information presented within the context of this rate proceeding and specifically the rate of return studies, the Commission finds that the value of 12.75% is the best point estimate of the Company's fair rate of return on equity. Incorporating this number as the allowable rate of return on common equity results in an overall rate of return of 11.15%.

The rate of return on common equity herein found fair and reasonable falls within the range produced by the studies of Dr. Rhyne and those of Dr. Olson before issuance costs are included.

Based on responses to Staff's Data Request, Item 7, as discussed by witness Rhyne, no common stock issues are planned for Contel of South Carolina or the consolidated telephone operations of Contel for the period 1990 through 1992. The Commission is of the opinion that the ratepayers of the Company should not be responsible for any issuance costs related to investment unless the Company demonstrates that ratepayers will benefit in some way from those services, i.e., if they are related to raising additional funds for regulatory purposes. If the Company has recently issued or has specific plans to issue common stock for regulatory purposes

during the period the resulting rates are expected to be in effect, then an adjustment for reasonable issuance costs should be applied. Based on the Company's responses to Staff's Data Request, the Company has not made the required showing and thus, is not entitled to issuance costs.

The Commission considers the results reached by these studies to have incorporated effectively the expectations of the potential equity investor through the estimate of the relevant risk of investment in the Company's equity relative to the market as a whole. The relevant risk of the Company is impacted by such factors as economic and financial conditions, inflationary expectations, competition, industry characteristics and the fundamental characteristics of the firm. The Commission concludes from the context of these studies that the point estimate of 12.75% more closely reflects the current level of risk of the Company, including the dynamic conditions of the telecommunications industry, and, therefore, appropriately incorporates investors existing expectations. This rate will provide the Company with an opportunity for a return commensurate with the return that equity owners could expect to obtain in other enterprises having corresponding risks.

The Commission considers the value of 12.75% to represent a reasonable expectation for the equity owner, and, therefore, consistent with the standards in the Hope decision. A rate of return on rate base found fair and reasonable is sufficient to protect the financial integrity of the Company, to preserve the

property of the investor, and to permit the Company to continue to provide reliable services to present and future customers at reasonable rates.

In arriving at a rate of return herein, the Commission is primarily concerned only with the return to be earned on the common equity allocated to that portion of the Company's operations subject to the Commission's jurisdiction in this proceeding. The Commission has made its findings based on the jurisdictional South Carolina intrastate operations of the Company, and has not considered any other operations or property.

An important function of ratemaking is the determination of the overall rate of return which the utility should be granted. This Commission has utilized the following definitions of "rate of return" in previous decisions, and continues to do so in this proceeding:

For regulatory purposes, the rate of return is the amount of money earned by a regulated company, over and above operating costs, expressed as a percentage of the rate base. In other words, the rate of return includes interest on long-term debt, dividends on preferred stock, the earnings on common stock and surplus. As Garfield and Lovejoy have put it "the return is that money earned from operations which is available for distribution among the various classes of contributors of money capital. In the case of common stockholders, part of their share may be retained to surplus."

Phillips, The Economics of Regulation, pp. 260-261 (1969).

The amount of revenue permitted to be earned by the Company through its rate structure depends upon the rate base and the allowed rate of return on the rate base. As previously discussed,

the primary issue between the regulated utility and regulatory body most frequently involves the determination of a reasonable return on common equity, since the other components of the overall rate of return, i.e., dividends on preferred stock and cost of debt, are fixed as of December 31, 1989, the appropriate capital structure used herein. Although the determination of the return on common equity provides the necessary component from which the rate of return on rate base can be derived, the overall rate of return, as set by this Commission, must be fair and reasonable.

The United States Supreme Court's landmark decision in Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), delineated general guidelines for determining the fair rate of return in utility regulation. In the Bluefield decision, the Court stated:

What annual rate will constitute just compensation depends upon many circumstances and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertaking which are attended by corresponding risk and uncertainties; but it has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time, and become too high or too low by changes affecting opportunities for investment, the money market, and business generally.

262 U.S. at 692-693.

During the subsequent year, the Supreme Court refined its appraisal of regulatory precepts. In its frequently cited Hope decision, supra, the Court restated its view:

We held in Federal Power Commission v. Natural Pipeline Gas Co.....that the Commission was not bound to the use of any single formula or combination of formulae in determining its rates. Its ratemaking function, moreover involves the making of 'pragmatic adjustments' (citation omitted).... Under the statutory standard of 'just and reasonable' it is the result reached, not the method employed which is controlling (Citations omitted)....

The ratemaking process under the Act, i.e., the fixing of 'just and reasonable' rates involves a balancing of the investor and the consumer interests. Thus we stated in the Natural Gas Pipeline Co. case, that regulation does not insure that the business shall produce net revenues. (Citations omitted)

But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. (Citation omitted). By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.

320 U.S. at 602-603.

The vitality of these decisions has not been eroded, as indicated by the language of the more recent decision of the Supreme Court in IN RE: Permian Basin Area Rate Cases, 390 U.S. 747 (1968). This Commission has consistently operated within the

guidelines set forth in the Hope decision.

The Commission has found that the capitalization ratios as of December 31, 1989, as adjusted, are appropriate and should be used in the instant proceeding. The Commission has likewise found that the respective embedded cost rates for long-term debt of 9.17% and for preferred stock of 8.69% should be utilized in the determination of a fair rate of return. For the purposes of this proceeding, the Commission finds the proper cost rate for the Company's common equity capital to be 12.75%.

Using these findings, the overall rate of return on rate base for the Company's South Carolina intrastate operations may be derived as computed in the following table:

	<u>TABLE C</u> <u>OVERALL RATE OF RETURN</u>		
	<u>RATIO</u>	<u>COST</u>	<u>WEIGHTED COST</u>
Long Term Debt	44.41%	9.17%	4.07%
Preferred Stock	.18%	8.69%	.02%
Common Equity	<u>55.41%</u>	<u>12.75%</u>	<u>7.06%</u>
TOTAL	<u>100.00%</u>		<u>11.15%</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 15

Evidence for this finding concerning rate design, rate schedules and service regulations is found in the testimony and exhibits of Company witnesses Fallis and Fulp and Commission Staff witness McDaniel.

The revenue requirements of the Company having been determined, the Commission is also concerned with the determination

of the specific rates and the development of the rate structure that will yield the required revenues. It is generally accepted that proper utility regulation requires the exercise of control over the rate structure to insure that equitable treatment is afforded each class of customer.

The Commission has traditionally exercised its statutory responsibility to provide "just and reasonable" rate, pursuant to S.C. Code, §58-9-570 (1976) by the recognition and implementation of the objective to provide telephone utilities a fair opportunity to earn a reasonable return which produces the allowed revenue requirement in a manner which equitably apportions the revenue responsibility among the beneficiaries of the utility's service. In discharging that responsibility, the Commission has traditionally identified three pertinent ratemaking criteria:

- a. The revenue requirement or financial-need objective, which take the form of a fair-return standard with respect to private utility companies;
- b. The fair-cost apportionment objective, which invokes the principle that the burden of meeting the total requirement must be distributed fairly among the beneficiaries of the service;
- c. The optimum-use or consumer rationing objective under which rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principals of Public Utility Rate (1961), p. 292.

These criteria have been observed by this Commission in recent

proceedings and again are utilized in this matter.

The record of this proceeding reveals that the Company's objectives in formulating the pricing proposals in this case were to 1) achieve more efficient utilization of the existing and future facilities, 2) provide a more equitable pricing structure, 3) maintain universal service, 4) assure marketability of service, 5) recognize cost of service and value of service considerations, and 6) assure uniformity of rates.

The Commission recognizes both the inherent limitations and benefits of analyses based on cost as well as upon the value of telecommunications services. Various costing methodologies have been applied to many of the rates and charges in the distribution of revenues proposed by the Company in this matter.

The Commission's analysis of the design and effect of the proposed rates and charges must begin and end with a recognition and reconciliation of the Commission's stated objectives to meet the reasonable revenue requirements fairly and to consider the economic equation of costs and benefits for the subscriber.

NON-RECURRING SERVICE CHARGES

The Company proposed changes in its non-recurring service charges. These service charges are ones customarily required for the establishment of service or the change of existing service. For the most part, the Company's proposed service charges are priced in such a way to reflect an increase in labor costs. The service order charge includes a proposed \$50.00 primary service order charge and an \$11.00 secondary charge. The restoration

charge proposed by the Company was priced using a different pricing scheme. The approach used by the Company for the \$35.00 restoration charge is intended to encourage customers to avoid disconnection of a service for non-payment.

The establishment of telephone service for a residence customer consists of the primary service connection charge. Under the currently approved rates, residential service installation cost is \$38.00. Under the proposed charges, this cost will increase by \$12.00, for a total cost of \$50.00. A similar increase is proposed for business customers. Provided in the Commission Staff Report is a comparison of similar rates charged by Southern Bell, GTE South, and United Telephone Company. The highest rate presently approved by the Commission for the other jurisdictional telephone utilities is \$44.00 charged for residential installation by Southern Bell. While the Company may have had increased labor costs, the Commission also, in its quest for universal service, finds that the proposed primary installation charge of the Company is out of line with that charged by other telephone utilities and is not in keeping with the concept of universal service. The proposed charge of the Company could keep new customers from subscribing to the basic telephone services offered by Contel and is therefore denied.

As to the proposed restoration charge of \$35.00, the Commission finds that this, too, is not in keeping with the concept of universal service. If a customer is unable to pay his telephone bill and is disconnected, increasing the restoration charge from \$25.00 to \$35.00 will not encourage the customer to avoid

disconnection. The Commission is of the opinion that the present \$25.00 charge is appropriate and is well within the reasonable range approved for other telephone utilities in this State.

Another non-recurring service charge proposed by the Company was an increase to \$50.00 for the installation charge for low income residents only. Based on the Commission's determination not to change the primary service order for either business or residential, the installation charge for low income residents only should not be changed. Since the secondary service order and central office work charges are not related to the initial establishment of basic telephone service, the Company's proposal to increase these charges to \$11.00 and \$9.00, respectively, is hereby approved.

OFF PREMISES MILEAGE

The Company has proposed to increase the mileage charges associated with the Off Premises Extension Services. The proposed increases will generate additional annual revenues of \$7,113. There are two categories of Off Premises mileage. These are denoted as Continuous Property and Non-Continuous Property. For Continuous Property Off Premise mileage, the Company is proposing an increase of \$.50 per one-tenth mile for a total of \$1.50 per one-tenth mile. For non-continuous property premises mileage, the unit of measurement is per quarter mile for an increase of \$.75 per one-quarter mile. The Commission has examined these proposed charges and finds that such optional types of services will contribute to the basic local service rates of the Company. The

Commission also determined that these charges are reasonable in light of the value of service being provided to those customers requiring Off Premises telephone service. Therefore, the Commission will approve the proposed increase associated with Off Premises Extension Services.

DIRECTORY LISTING

The Company proposes to increase its Directory Listing offerings. The proposals would generate additional annual revenue of \$16,345. The percentage increases proposed in the various optional listings are approximately 31%. The Commission has examined these charges and compared them to the present rates offered by the Company. In light of the fact that the Directory Listing offering increases are optional services, the Commission has determined that the proposed rates are reasonable and are approved herein.

DIRECTORY ASSISTANCE

The Company proposes two modifications to its local Directory Assistance service: 1) the Company is proposing to increase the charge for directory assistance from \$.40 to \$.45; and 2) the Company is proposing to reduce the calling allowance from three free calls to two free calls for residential customers. Business customers are charged for each call made to Directory Assistance. The proposed changes to the Company's Directory Assistance rates and the calling allowance will generate additional annual revenues of \$8,544. The Commission also takes notice of Directory Assistance rates approved for other jurisdictional telephone

utilities in this State. Presently, no other local exchange company is allowed by this Commission to charge \$.45 for local directory assistance and the present calling allowance per month is three free calls. In keeping with the Commission's considerations of the costs and benefits to the subscriber, as well as providing an equitable pricing structure and ensuring the marketability of this service which were espoused as goals of the Company in formulating its pricing proposal, the Commission has determined that the proposed rates are not in keeping with these principles. The Commission herein determines that the proposed rates are denied, and for the purposes of maintaining uniform rates for Directory Assistance Services, the present rate of \$.40 per call with a monthly calling allowance of three free calls for residential subscribers is approved herein.

PRIVATE LINE SERVICE

Private Line Service is a non-switched point to point service. The Company has proposed increases in the mileage charges associated with this service which will generate additional annual revenues of \$12,274. As testified to by the Company, private line rates are proposed to increase to provide a greater contribution to basic local service rates. First mile charges are increasing by \$1.25 to \$4.75 while additional mile charges are increasing by \$.50 to \$1.75. The Company has also proposed to increase private line service between buildings on the same premises with similar rate proposals. The Commission has examined these rates for this service and find that they are reasonable. Therefore, the

Company's proposal to increase private line service rates is approved as proposed.

MISCELLANEOUS SERVICE

The Company has proposed two revisions for services it has categorized as Miscellaneous Service. The revision affects the Company's Special Billing Number Service and Local Operator Services. As to the Company's Special Billing Number Service, the Company is proposing to restructure this service. Currently, the tariff provides that the initial group of special billing numbers will be 100 numbers. Any additional special billing number in excess of the initial 100 numbers are sold in groups of 20. With its filing, the Company proposes to restructure the tariff to provide that special billing numbers be provided in groups of 20, eliminating the initial requirement for the purchase of 100 numbers. The Company designed the rates to be revenue neutral. Based on the Company's filing and the Commission's review thereof, the Commission finds that the Company's filing is revenue neutral and would also be beneficial to the customers purchasing this service. Therefore, the Company's Special Billing Number Service proposal is approved.

As to the Local Operator Services, the Company has not charged for these functions in the past. With this filing, the Company is proposing to concur with Southern Bell's operator handling charges. With its concurrence in Southern Bell's approved tariff, the Commission has determined that the Local Operator Service rates should be approved.

Additionally, the Company is proposing to now charge for Busy Verification and Emergency Interrupt service. The Company is proposing to charge \$.35 per request for busy verification and \$.75 per request for emergency interrupt. The Commission has examined these charges in light of those charged by other telephone utilities and finds that they are appropriate and should be approved for ratemaking purposes herein.

CENTREX AND IBS

The Company has proposed to increase rates for its Centrex and IBS offerings. For Centrex Service, the Company has proposed to increase the rates in the range of 32-33% for Centrex access lines and related services. According to the Commission Staff Report, as of September 30, 1989, the Company had no Centrex customers, even though it had calculated additional revenues generated by the increases based on projected customers. The Commission Staff's calculations did not include additional revenues generated by the Company's Centrex proposal. The Integrated Business Service offering proposed by the Company would increase those rates by 33%. The Commission has examined these proposals and finds that the requested rates are reasonable and should be approved herein.

FOREIGN EXCHANGE SERVICE

Foreign Exchange Service is exchange service furnished to a customer from an exchange other than the one from which he would be normally served. The Company has proposed increases in mileage charges and termination charges related to the provision of foreign exchange service. The increases proposed by the Company

will generate additional annual revenues of \$3,060. First mile charges are increasing by \$1.50 to \$5.00 while additional quarter mile charges are increasing by \$.50 to \$1.50. The Company also proposes to increase termination charges by \$8.00 to \$28.00. The Commission has reviewed these rates and finds that approval of the foreign exchange increases will provide a greater contribution to the basic local service rates of the Company. These rates are also found to be reasonable and are approved herein.

MISCELLANEOUS SERVICE ARRANGEMENTS

Customer Calling Service and Touch Calling Service are the miscellaneous service arrangements for which the Company is proposing increases. The increase proposed for Custom Calling Services will generate additional annual revenues of \$41,454. The features available through this service are all optional offerings, such as call forwarding, call waiting, three-way calling, speed calling, etc. The percentage increases for these features as well as the feature packages vary from a low of 11.8% to a high of 40%. The Commission has reviewed the proposed rates for Custom Calling Service and finds that the rates appear to be reasonable and should enable the Company to maintain universal service while assuring marketability of the Custom Calling Services. Therefore, the Commission will approve the proposed rates for Custom Calling Service.

The Company has priced its Touch Calling Service at the same level for both residence and business classes of service. The Company proposes to increase its Touch Calling Service rates from

\$1.15 per month to \$2.00 per month for a 73.9% increase. The increase proposed for this service will generate additional revenues of \$113,149. The Commission has reviewed this proposal and finds that this is in conflict with the Company's objectives of an equitable pricing structure, assuring marketability of service and recognizing the cost of service and value of service considerations. The Commission, while recognizing that touch tone calling is a discretionary service chosen by a subscriber, a majority of the Contel subscribers are touch tone users. The Commission is aware that more and more customers rely on touch tone calling features for many uses. While the Commission is aware also that the proposed increase will help support local basic service rates, the Commission is of the opinion that the proposed tariff rate of \$2.00 per month is unreasonable, based on the large percentage increase of 73.9%. Therefore, the Commission has determined that the proposed Touch Calling Service rate be denied and that the present rate is appropriate for ratemaking purposes herein.

ACCESS CHARGES

With this filing, the Company has proposed several revisions in its Access Service tariff. Overall, the impact of the Company's proposed changes in access charges is a reduction in intrastate revenues of \$140,598. Of this total proposed reduction, \$135,461 will be derived through reduced rates for switched access service. This reduction is the direct result of reduced end office and local transport switched access elements. The Company is essentially

proposing to mirror its interstate access service tariff. The Company did not propose any reductions in its intrastate carrier common line charge in this filing. With the mirroring of its interstate tariff, there were certain other intrastate non-revenue producing elements from which changes were proposed. Additionally, the Company proposed changes for its special and dedicated access services. AT&T's witness Geudel also supported the Company's lowering of its access charges.

The Commission has considered the proposal to reduce access charges by Contel and finds that it is not appropriate at this time to approve such a proposal. The Commission finds that the record does not support the Company's proposal. The Company has not provided sufficient proof that the present access charges or present intrastate tariff levels are too high. The Commission has considered the same issue in another Docket (See Docket No. 86-625-C, Order No. 88-604). The Commission, while recognizing the benefits of lowering access charges, finds that the Company did not present sufficient reasons for doing so. The Company failed to show that its present access charges approved by this Commission are not properly priced. Additionally, the Commission has now set up a mechanism for the reduction of a component of access charges -- the Carrier Common Line Charge -- in Docket No. 88-472-C. Therefore, the Commission denies the changes in access charges proposed by the Company. The Company's present access charges shall remain in effect.

COCOT BLOCKING OPTION

The Company has proposed changes in an offering which allows COCOT providers to subscribe to a blocking service which eliminates calls from being billed to a COCOT telephone. The Company has proposed to increase this rate from \$2.00 to \$2.65. The Commission has reviewed this charge and has determined that it will serve to eliminate improper calls being billed to a COCOT telephone. The Commission finds that this service is in the public interest and that the rate is reasonable and should be approved herein.

EXTENDED AREA SERVICE

The Company proposed the introduction of Extended Area Calling (EAS) for the Elloree and Sumter exchanges. For these exchanges, the Company is proposing to expand its calling to the Orangeburg exchange. The Company proposes to price this EAS at the existing Tier 2 optional usage sensitive rates. The existing local calling area will remain unchanged and continue under the present flat rate basis. The Company has additionally proposed to grandfather the existing flat rate EAS. The Company's testimony demonstrated substantial savings to its customers under the usage sensitive rates. The Commission finds that the proposal is reasonable, beneficial to its customers, provides an equitable pricing structure, and should be approved.

The Company has proposed to continue existing EAS routes. However, Contel proposes that in addition to "grandfathering" existing EAS routes, any future expansion of EAS will be accomplished solely on a measured service basis. The Commission,

in considering this proposal, recognizes the apparent equity of such a pricing methodology but cannot find that such a blanket proposal would always be the reasonable approach to every EAS request. Therefore, the Commission denies the Company's proposal and will consider each future EAS request on a case-by-case basis.

OPTIONAL USAGE PRICING SERVICE

The Company's proposal to expand its Optional Usage Pricing Service to the subscribers of its other exchanges is encouraged. The Commission has encouraged such optional services for other jurisdictional utilities and hereby approves Contel's proposal.

The Commission acknowledges a complexity of the task of setting just and reasonable rates. The relevant principles characterized in the testimony and exhibits in the record in this proceeding and those traditionally employed by this Commission have been fully considered in reaching its determination. The Commission has endeavored to analyze the Company's proposed rates and incorporate our finding of the proper increase in revenues in the derivation of equitable, lawful and reasonable rates.

The Company's Application incorporated proposed rate schedules which would generate the amount of additional revenue requested by the Company. The Commission has determined that the requested amount should be reduced.

In light of the evidence and the record before us and based upon our evaluation of the applicability of the principles of ratemaking, the Commission is of the opinion and so finds, that fair and reasonable rates and charges for local exchange service

are as set forth in Appendix A of this Order, effective for service rendered on and after the date of this Order. The Company will herein be required to file for approval within thirty days of the date of this Order revised schedules and tariffs consistent with the terms of this Order, which incorporate the revenue reduction determined in this Order to be appropriate.

The following table represents the total revenue effect, as adjusted, of the rates and charges proposed by the Company and the rates and charges approved herein by the Commission.

TABLE
REVENUE ADJUSTMENTS

<u>TARIFF SECTION</u>	<u>PROPOSED INCREASE</u>	<u>AMOUNT GRANTED</u>
Service Charges	\$ 49,464	\$ 6,434
Off Premises Mileage	7,113	7,113
Directory Listing	16,345	16,345
Directory Assistance	8,544	-0-
Private Line Service	2,274	2,274
Miscellaneous Service	6,163	6,163
Centrex/IBS	13,523	7,214
Foreign Exchange Svc.	3,060	3,060
Miscellaneous Service Arrangement	154,603	41,454
COCOT Blocking	165	165
	<u>\$ 261,254</u>	<u>\$ 90,222</u>
Local Exchange Rates	926,960	\$609,463
	<u>\$1,188,214</u>	<u>\$699,685</u>

IT IS THEREFORE ORDERED:

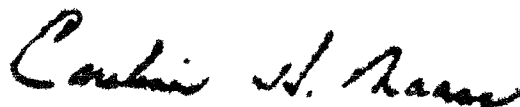
1. That the proposed rates and charges filed by the Company on December 15, 1989, are unreasonable and improper and are hereby denied.

2. That the Company file with the Commission, for approval within thirty (30) days of the date of this Order, tariffs in accordance with the findings contained herein.

3. That the Company continue to file quarterly reports showing rates of return on common equity and rate base, filed within sixty (60) days from the end of the calendar quarter.

4. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Chairman

ATTEST:

Deputy,


Executive Director

(SEAL)

BOWMAN EXCHANGE ACCESS RATES

Class of Service	<u>Increase</u>	<u>Approved Rates</u>
Business		

One Party	\$ 5.02	\$29.27
Seasonal	\$ 2.51	\$14.64
MultiLine	\$ 7.54	\$43.92
Trunk	\$10.05	\$58.55
* Multiline USS	\$32.94	\$32.94
* Trunk USS	\$43.91	\$43.91
* One Pty USS	\$21.95	\$21.95
COCOT Line	\$ 4.02	\$23.42
Semi Public	\$ 5.02	\$29.27
Residence		

One Party	\$ 2.67	\$15.57
Seasonal	\$ 1.34	\$ 7.79
Employee	\$ 1.34	\$ 7.79
MultiLine	\$ 4.01	\$23.36
* Residence - USS	\$11.68	\$11.68
* Multiline USS	\$17.52	\$17.52
* R-1 Economy	\$ 9.34	\$ 9.34
* Res. MultiLine-Econ.	\$14.01	\$14.01
* Exch. Only MtlLne USS	\$19.85	\$19.85
* Exch. Only Res. USS	\$13.24	\$13.24
* Indicates New Rate		

ELLOREE AND SANTEE EXCHANGE ACCESS LINE RATES

Class of Service	<u>Increase</u>	<u>Approved Rates</u>
Business		

One Party	\$ 4.30	\$25.05
Seasonal	\$ 2.15	\$12.53
MultiLine	\$ 6.45	\$37.58
Trunk	\$ 8.61	\$50.16
* Multiline USS	\$28.19	\$28.19
* Trunk USS	\$37.62	\$37.62
* One Pty USS	\$18.78	\$18.78
COCOT Line	\$ 3.44	\$20.04
Semi Public	\$ 4.30	\$25.05
Residence		

One Party	\$ 2.37	\$13.82
Seasonal	\$ 1.19	\$ 6.92
Employee	\$ 1.19	\$ 6.92
MultiLine	\$ 3.56	\$20.74
* Residence - USS	\$10.37	\$10.37
* Multiline USS	\$15.56	\$15.56
* R-1 Economy	\$ 8.29	\$ 8.29
* Res. MultiLine-Econ.	\$12.44	\$12.44
* Exch. Only MtlLne USS	\$17.63	\$17.63
* Exch. Only Res. USS	\$11.75	\$11.75
* Indicates New Rate		

JACKSON EXCHANGE ACCESS LINE RATES

Class of Service	<u>Increase</u>	<u>Approved Rate</u>
Business		

One Party	\$ 5.71	\$35.71
Seasonal	\$ 2.85	\$17.85
MultiLine	\$ 8.56	\$53.56
Trunk	\$ 8.77	\$54.87
* Multiline USS	\$40.17	\$40.17
* Trunk USS	\$41.15	\$41.15
* One Pty USS	\$26.78	\$26.78
COCOT Line	\$ 4.56	\$28.56
Semi Public	\$ 5.71	\$35.71
Residence		

One Party	\$ 3.65	\$22.84
Seasonal	\$ 1.82	\$11.42
Employee	\$ 1.82	\$11.42
MultiLine	\$ 5.47	\$34.26
* Residence - USS	\$17.13	\$17.13
* Multiline USS	\$25.70	\$25.70
* R-1 Economy	\$13.70	\$13.70
* Res. MultiLine-Econ.	\$20.56	\$20.56
* Exch. Only MtlLne USS	\$29.13	\$29.13
* Exch. Only Res. USS	\$19.41	\$19.41

* Indicates New Rate

SIMPSONVILLE EXCHANGE ACCESS LINE RATES

Class of Service	<u>Increase</u>	<u>Approved Rates</u>
Business		

One Party	\$ 7.32	\$42.82
Seasonal	\$ 3.67	\$21.32
MultiLine	\$ 9.82	\$62.77
Trunk	\$14.87	\$86.42
* Multiline USS	\$47.08	\$47.08
Trunk USS	\$11.12	\$64.82
One Pty USS	\$ 5.48	\$32.12
COCOT Line	\$ 5.87	\$34.11
Semi Public	\$ 7.32	\$42.82
Residence		

One Party	\$ 2.96	\$17.26
Seasonal	\$ 1.48	\$ 8.63
Employee	\$ 1.48	\$ 8.63
MultiLine	\$ 4.44	\$25.89
Residence - USS	\$ 2.22	\$12.97
* Multiline USS	\$19.42	\$19.42
R-1 Economy	\$ 1.79	\$10.44
* Res. MultiLine-Econ.	\$15.53	\$15.53
* Exch. Only MtlLne USS	\$22.01	\$22.01
Exch. Only Res. USS	\$ 2.51	\$14.66
* Indicates New Rate		

DOCKET NOS. 89-510-C & 89-567-C - ORDER NO. 90-611
JUNE 14, 1990
APPENDIX B

DEPRECIATION RATES

Account		Approved Depreciation Rate
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2112	Motor Vehicles	13.9%
2116	Other Work Equipment	5.7%
2121	Buildings	3.0%
2122	Furniture	6.2%
2123	Office Support Equipment	8.1%
2124	General Purpose Computers	15.8%
2212	Digital Switching	6.4%
2232	Circuit Equipment	9.6%
2351	Paystation Equipment	5.9%
2362	Other Terminal Equipment	10.2%
2411	Poles	6.2%
2421	Aerial Cable	6.6%
2422	Underground Cable	4.2%
2423	Buried Cable	5.3%
2431	Aerial Wire	12.3%
2441	Conduit Systems	2.1%